



# Magellan Midstream Partners (MMP)

Updated May 12<sup>th</sup>, 2023 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$55	<b>5 Year CAGR Estimate:</b>	13.8%	<b>Market Cap:</b>	\$11.1 B
<b>Fair Value Price:</b>	\$72	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	5/5/2023
<b>% Fair Value:</b>	76%	<b>5 Year Valuation Multiple Estimate:</b>	5.5%	<b>Dividend Payment Date:</b>	5/15/2023
<b>Dividend Yield:</b>	7.6%	<b>5 Year Price Target</b>	\$83	<b>Years Of Dividend Growth:</b>	22
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## Overview & Current Events

Magellan Midstream Partners (MMP) has the longest pipeline system of refined products, which is linked to nearly half of the total U.S. refining capacity. This segment generates 65% of its total operating income while the transportation and storage of crude oil generates 35% of its operating income. MMP has a fee-based model; only ~9% of its operating income depends on commodity prices. That is why it exhibited impressive resilience in the downturn of the oil market between 2014 and 2017 and throughout the pandemic. MMP has a market capitalization of \$11.1 billion.

During the last decade, MMP has invested about \$6 billion in growth projects and acquisitions and has exhibited much better performance than the vast majority of MLPs. Most MLPs carry excessive amounts of debt, post poor free cash flows due to their capital expenses and dilute their unitholders to a great extent on a regular basis. They also tend to have payout ratios near 100%. On the contrary, MMP has posted positive free cash flows for more than 10 consecutive years and has a strong balance sheet. In addition, it does not dilute unitholders and maintains a healthy payout ratio. All these attributes confirm the discipline of its management, which invests only in high-return projects.

In early May, MMP reported (5/4/23) financial results for the first quarter of fiscal 2023. Distributable cash flow grew 18% over the prior year's quarter thanks to improved commodity margins and sustained demand for the assets of the company. MMP has proved resilient to the pandemic and slightly raised its guidance for its distributable cash flow in 2023, from \$1.20 billion to \$1.22 billion. It also expects a distribution coverage ratio above 1.4 for the full year.

Accordingly, we have raised our annual forecast for distributable cash flow per share from \$5.90 to \$6.00. We also praise management for repurchasing shares when the stock price is suppressed, in contrast to most companies, which repurchase shares during boom times, at elevated stock prices.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>CF/S</b>	\$3.20	\$4.42	\$4.34	\$4.31	\$4.68	\$4.84	\$5.67	\$4.66	\$5.22	\$5.38	<b>\$6.00</b>	<b>\$6.96</b>
<b>DPS</b>	\$2.10	\$2.51	\$2.92	\$3.25	\$3.52	\$3.80	\$4.04	\$4.11	\$4.13	\$4.16	<b>\$4.19</b>	<b>\$4.40</b>
<b>Units<sup>1</sup></b>	226.7	226.7	227.4	227.8	228.0	229.1	228.7	224.0	214.1	206.1	<b>200.0</b>	<b>190.0</b>

MMP has decent growth prospects, as it has some growth projects under way. The company invested \$1.0 billion in these projects in 2019, \$355 million in 2020 and \$73 million in 2021. It also has more than \$500 million of potential growth projects under consideration and continues to evaluate their prospects in order to identify the most promising ones. In addition, share repurchases may constitute another significant growth driver. The only caveat is the relatively low investment in new growth projects lately (\$83 million in 2022 and expected \$110 million in 2023). However, the energy market is recovering strongly from the pandemic, with U.S. oil production close to new all-time highs. MMP has grown its cash flow per share at a 5.9% average annual rate over the last decade. In the last 17 conference calls, management has reiterated its commitment to maintain a distribution coverage ratio of at least 1.20 in the long run. In order to be on the safe side, we expect 3% annual growth in distributable cash flow per share.

<sup>1</sup> In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/CF	19.8	18.7	15.7	17.6	15.2	13.7	11.0	9.4	9.0	9.3	9.2	12.0
Avg. Yld.	3.9%	3.2%	4.0%	4.7%	4.9%	5.7%	6.4%	9.4%	8.8%	8.4%	7.6%	5.3%

MMP is trading at a price-to-cash flow ratio of 9.2, which is a nearly decade-low level, much lower than the 10-year average ratio of 13.9. In order to be conservative, we assume a fair price-to-cash flow ratio of 12.0 for this MLP. If the stock approaches our fair valuation level over the next five years, it will enjoy a 5.5% annualized boost to total returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	65.6%	56.8%	67.3%	75.4%	75.2%	78.5%	71.2%	88.2%	79.1%	77.3%	69.8%	63.3%

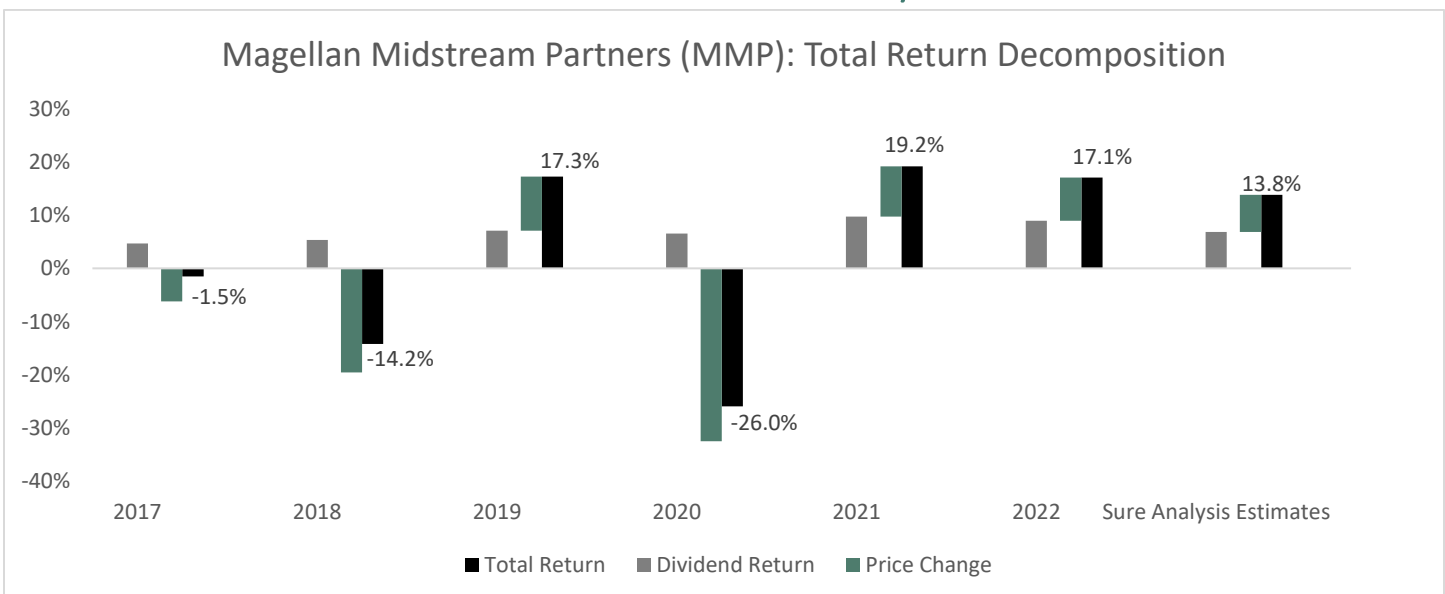
The competitive advantage of MMP comes from its fee-based model, its great scale and its discipline to invest only in high-return projects. MMP grew its dividend for 70 consecutive quarters before the freeze in 2020 and has raised its annual dividend at a 10% average annual rate since 2001. This record is a testament to the strength of the business model and the great discipline of management. Moreover, instead of issuing new shares to fund growth projects, like nearly all the MLPs, MMP is now repurchasing its shares at low prices to enhance shareholder value. Thanks to its fee-based model, MMP proved resilient in the downturn of the oil market in 2014-2016.

On the other hand, investors should not jump to the conclusion that MMP is immune to recessions. In the Great Recession, its earnings-per-share fell -32%, from \$1.64 in 2008 to \$1.11 in 2009. In 2020, earnings fell -20% due to the pandemic but MMP has now recovered from that downturn.

## Final Thoughts & Recommendation

MMP is one of the safest and highest-quality MLPs and one of the most resilient oil companies to downturns. Nearly all the oil companies posted losses or depressed profits in 2020 but MMP incurred just a ~20% decrease. MMP could offer a 13.8% average annual return over the next five years thanks to its 7.6% distribution yield, 3.0% growth of cash flow per share and a potential 5.5% valuation tailwind. It thus maintains its buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	1,948	2,360	2,188	2,205	2,508	2,827	2,601	2,322	2,733	3,200
<b>Gross Profit</b>	1,227	1,604	1,574	1,534	1,675	1,857	1,809	1,611	1,725	1,788
<b>Gross Margin</b>	63.0%	68.0%	71.9%	69.6%	66.8%	65.7%	69.6%	69.4%	63.1%	55.9%
<b>SG&amp;A Exp.</b>	132	148	150	147	166	194	194	171	206	241
<b>D&amp;A Exp.</b>	142	162	167	178	197	265	231	243	228	293
<b>Operating Profit</b>	699	955	901	858	932	1,013	1,002	852	952	961
<b>Operating Margin</b>	35.9%	40.5%	41.2%	38.9%	37.2%	35.9%	38.5%	36.7%	34.8%	30.0%
<b>Net Profit</b>	582	840	819	803	870	1,334	1,021	817	982	1,036
<b>Net Margin</b>	29.9%	35.6%	37.4%	36.4%	34.7%	47.2%	39.2%	35.2%	35.9%	32.4%
<b>Free Cash Flow</b>	352	744	449	299	573	801	397	683	1,048	966
<b>Income Tax</b>	5	5	2	3	4	0	1	3	2	3

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	4,821	5,501	6,042	6,772	7,394	7,748	8,438	8,197	8,030	7,708
<b>Cash &amp; Equivalents</b>	25	17	29	15	161	218	58	13	2	2
<b>Accounts Receivable</b>	116	84	84	106	139	104	125	104	135	220
<b>Inventories</b>	187	158	131	134	182	186	184	158	281	356
<b>Goodwill &amp; Int. Ass.</b>	61	58	55	105	106	104	101	95	93	91
<b>Total Liabilities</b>	3,173	3,633	4,020	4,680	5,265	5,104	5,723	5,893	6,130	6,023
<b>Accounts Payable</b>	76	97	104	77	105	139	151	98	110	108
<b>Long-Term Debt</b>	2,685	2,967	3,440	4,087	4,524	4,271	4,706	4,979	5,089	5,015
<b>Shareholder's Equity</b>	1,647	1,868	2,022	2,092	2,130	2,643	2,715	2,304	1,900	1,685

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	12.6%	16.3%	14.2%	12.5%	12.3%	17.6%	12.6%	9.8%	12.1%	13.2%
<b>Return on Equity</b>	36.8%	47.8%	42.1%	39.0%	41.2%	55.9%	38.1%	32.6%	46.7%	57.8%
<b>Units Out.</b>	226.7	226.7	227.4	227.8	228.0	229.1	228.7	224.0	214.1	209.6
<b>Revenue/Share</b>	8.58	10.37	9.60	9.67	10.98	12.37	11.92	10.76	12.43	15.27
<b>FCF/Share</b>	1.55	3.27	1.97	1.31	2.51	3.50	1.65	2.96	4.77	4.61

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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